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SUBJECT: PANAMA CANAL EXPANSION NEXT STEPS PART I: CONTRACT
BIDDING PROCESS

REF: PANAMA 02066

11. (U) SUMMARY. On December 5 and 12, 2006, the US Department of Commerce Foreign Commercial Service in Panama (FCS) hosted a Webinar (internet conference) with Panama Canal Authority (ACP) officials to discuss the contract bidding process for the \$5.25 billion Panama Canal expansion project (Project). The Project has three components: (i) dredging of the new access and existing navigational channels, (ii) dry excavation work, and (iii) construction of the new third sets of locks and water basins. The ACP will bid out contracts for the dredging of the new access channels, the dry excavation work and construction of the new third set of locks. The ACP will do the dredging work within the navigational channels itself. The ACP officials said they are still in the early stages of formulating their procurement needs and procedures for the Project. Given the large scale nature of the Project, ACP officials believe there will be very few opportunities for small firms to win any contracts; small firms, however, may be able to participate as sub-contractors to the winning bidders. Part II (septel) addresses the ACP's next steps on the Project financing. END SUMMARY.

Panama Canal Webinar

12. (U) On December 5 and 12, 2006, FCS hosted a Webinar (internet conference) regarding the contract bidding process for the Project. The Panama Canal Authority's (ACP) Project Manager, Jorge de la Guardia, and Contract Manager, Enrique Sanchez, participated in the Webinars, along with approximately a total of 140 US individuals and companies.

The Project's Three Main Components

13. (U) The Project has three components: (i) dredging of the new access and existing navigational channels, (ii) excavation of dry material at the new lock sites and along the Culebra Cut channel, and (iii) construction of the new third sets of locks and water basins on the Atlantic and Pacific sides. The ACP officials said the dry excavation and dredging work will require moving 40 and 70 million cubic meters, respectively, of material. The original Panama Canal construction moved a total of 215 million cubic meters of material. Construction of the new locks is expected to commence in 2008.

14. (U) Of the \$5.25 billion Project budget, \$2.73 billion is

allocated to construction of the new locks, \$620 million for the construction of the water basins, \$420 million for dredging of the new access channels and \$400 million for dry excavation.

15. (U) The ACP will bid out contracts for the dredging of the new access channels, dry excavation work and construction of the new third set of locks. The ACP officials said the ACP will do the dredging work within the navigational channels with itself because they can do the work most efficiently. The ACP is also concerned about the logistical difficulty of coordinating ongoing canal operations with an outside dredging company.

16. (U) The ACP currently contemplates that the contract for the construction of the new set of locks will be awarded to only one company. The ACP anticipates the winner will be a large multinational engineering consortium. The ACP will supply the conceptual design and the construction company will provide the final design. The ACP originally considered having one engineering firm for the Pacific locks and a different one for the Atlantic locks but finally determined that having only one company would facilitate Project supervision and future maintenance.

17. (U) The ACP's first steps will be to hire a Project Manager, a Legal Advisor, a Financial Advisor and a Risk Manager. On December 6, ACP CFO Jose Barrios Ing told EmbOffs that the public bid information for the Financial Advisor will be published by mid December 2006 and a decision will be made by early February 2006. Barrios believes the winner will be one of the top international investment banks.

18. (U) ACP officials said no actual Project construction work can commence until at least the third quarter of 2007 after a

category 3 environmental impact study of the Project is completed and reviewed. The bid solicitation information for the environmental impact study is on the ACP's website at <http://www.pancanal.com/eng/procsales/buy>.

Bidding Procedures

19. (U) The ACP is still in the early stages of formulating its procurement needs and procedures for the Project. ACP officials have yet to decide whether bidders will need to pre-qualify. All bidders must register through the ACP's website. All contracts will go out for public bid with all relevant information published on the ACP's website. ACP officials said all ACP contracts are subject to a 30% tax withholding.

110. (U) Article XIV of the Panamanian Constitution governs the ACP contract bidding process. The ACP's procurement system is separate from that of the GoP and is similar to those of USG agencies. Details of the ACP's contract bidding process can be found at <http://www.pancanal.com/eng/fn/index.html>.

Limited Opportunity for Small or Local Companies

111. (U) Given the large scale nature of the Project, ACP officials said they believe there will be very few opportunities for small firms to win any contracts. They said small firms will probably participate as sub-contractors to the winning bidders. The dry excavation work is where the ACP believes smaller firms may have a chance to participate. Currently, Panamanian and Colombian companies do most of this work. However, the ACP officials said these smaller firms may lose out to a larger company who could do the dry excavation work as an ancillary part of a larger contract at a less expensive rate.

112. (U) While the ACP procurement process is

nondiscriminatory with no set asides or quotas, Barrios told EmbOffs he would like to see the implementation of incentives to hire local workers and sub-contractors.

Arreaga